

**CITY OF LAWTON**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
AUGUST 1, 2013 THROUGH JULY 31, 2014**

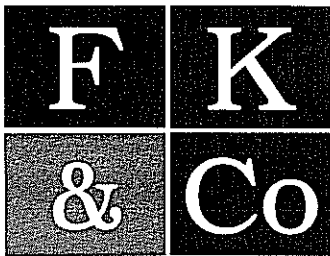
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## City of Lawton

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Jeff Nitzschke	Mayor	Jan 2014
Don Grigg	Council Member	Jan 2016
Perry Ludwig	Council Member	Jan 2016
Rick Schorg	Council Member	Jan 2016
Reed Burson	Council Member	Jan 2014
Terry Masching	Council Member	Jan 2014
Patricia Washburn	City Clerk/Treasurer	Indefinite
Glenn Metcalf	City Attorney	Indefinite
(After January 2014)		
Rick Schorg	Mayor	Jan 2016
Mike Frolkey	Council Member	Jan 2016
Perry Ludwig	Council Member	Jan 2016
Mike Otto	Council Member	Jan 2016
Will Wollesen	Council Member	Jan 2018
Terry Masching	Council Member	Jan 2018
Patricia Washburn	City Clerk/Treasurer	Retired Oct 2014
Janet Hasche	City Clerk/Treasurer	Indefinite
Glenn Metcalf	City Attorney	Indefinite



**FALLER, KINCHELOE & CO, PLC**

**Certified Public Accountants**

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Lawton pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lawton for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
15. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
16. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Lawton, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Lawton, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lawton and other parties to whom the City of Lawton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lawton during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Faller, Kincheloe & Co, PLC*

Faller, Kincheloe & Co, PLC

December 5, 2014

## CITY OF LAWTON

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days, as required.

## CITY OF LAWTON

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (E) Timesheets – Although timesheets were prepared for some employees, there was no indication the timesheets were reviewed and approved.

Recommendation – The City should review and update payroll policies to ensure all employees submit detailed timesheets and the timesheets are reviewed and approved.

- (F) Financial Condition – At July 31, 2014, the City had a deficit balance of \$142,513 in the TIF Fund.

Recommendation – The City Council should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

- (G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 80% for infrastructure and economic development for sewer, water and streets and 20% for property tax relief. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (H) Payroll – The City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that the City should have issued a Form 1099.

Recommendation – The City should file IRS Forms 1099 when applicable.



## CITY OF LAWTON

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (I) Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

- (J) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

We noted the following related to the City's TIF certifications.

- In October 2013, the City certified TIF indebtedness to the County Auditor for invoices and transfers from the Special Revenue, Urban Renewal Tax Increment Fund for project and other miscellaneous costs within the City's urban renewal area. While the City intended these payments to represent loans from the Special Revenue, Urban Renewal Tax Increment Fund for the related TIF projects, no evidence could be located that some of these loans were formally approved by the City Council and, accordingly, do not represent TIF debt which may be certified to the County Auditor.
- The City decertified \$336 in interest income on form 3 of the TIF certification filed with the County Auditor. However, the City's accounting records indicate the City only credited \$259 in interest income to the Special Revenue, Urban Renewal Tax Increment Fund during the year ended June 30, 2013.

## CITY OF LAWTON

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- It does not appear Woodbury County's "Urban Renewal Area TIF Indebtedness/Increment Tax Reconciliation" form incorporates the TIF certification and decertification amounts the City filed with Woodbury County in October, 2013.

Recommendation – The City should establish procedures to ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification. The City should also consult legal counsel to determine the propriety of the City's TIF certification.

The City should also work with Woodbury County (County) to ensure all documentation submitted to the County is incorporated into the amount the City will ultimately receive from the County as TIF receipts.

- (K) Annual Urban Renewal Report (AURR) – The City's TIF receipts, disbursements and ending cash balance of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's records.

In addition, the amount of obligations associated with the Low to Moderate Income requirements as reported on the AURR appear to be understated by \$120,000.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records. In addition, the City should ensure that all obligations are reported on the AURR.

- (L) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City did not report the correct transfer amounts on the City's Annual Financial Report.

Recommendation – The City should ensure that the correct amounts are reported on future Annual Financial Reports.

## CITY OF LAWTON

### DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (M) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Schorg, Mayor Owner of Sign Pro	Signs	\$2,371

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transaction with Rick Schorg does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

- (N) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (O) Tax Increment Financing Fund Disbursements – Chapter 403.19(10)(b) of the Code of Iowa provides moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide for LMI assistance.

During the year ended July 31, 2014, the City paid \$2,524 of claims from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.